

## 2008 California Volunteer Manual

### Form 540

#### Line 20

##### Social security benefits

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A. These amounts can be found either on Form 1040A, line 11b, or Form 1040, line 20b.

#### Line 21

##### Other income

##### Line a - California lottery winnings:

California does not tax California lottery winnings. Enter the amount of California lottery winnings included in the amount on line 21, column A or line 21, column B.



*Do not make an adjustment for lottery winnings from other states. These winnings **are** taxable to California.*

##### **TaxWise Tip:**

***"X" the box on W2G to exclude CA Lottery winnings from the CA return. This causes TaxWise to automatically deduct the income on Schedule CA, line 21a.***

#### Lines b through e - Disaster loss carryover and net operating loss (NOL):

These adjustments are beyond the scope of the VITA/TCE volunteer program.

#### Line f - Other (describe):

Include on line f, column B, income that you included in your clients' federal income on Form 1040 from:

- \* Beverage container recycling.
- \* Rebates from local water agencies, energy agencies, or energy suppliers.
- \* Reward from a crime hotline.
- \* Compensation for false imprisonment.
- \* Cost-share payments received by forest landowners.
- \* Grants paid to low income individuals to retrofit or construct buildings.
- \* Health Savings Account distributions for unqualified medical expenses.
- \* Federal Mortgage Debt Relief in excess of California limits.

Include on line f, column C, foreign earned income or housing exclusion from Form 1040, line 21.

#### Line 22 - Total income

Add lines 7 through 21f in column B and column C. Enter the totals on line 22.

## SCHEDULE CA (540) – PART 1 SECTION B

Use this section of the Schedule CA (540) for adjustments to entries made on the Form 1040, lines 23 through 35. If your clients have no adjustments to income on these lines on their Form 1040, skip to line 34.

#### Column A

Enter in column A, lines 23 through 35, the same amounts you entered on your clients' federal Form 1040, lines 23 through 35.



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### COLUMNS B & C

#### Line 23

#### through Line 31

Below is a description of any adjustment necessary for columns B & C. California law is the same as federal unless otherwise noted.

#### Line 21f

#### Mortgage Debt Relief

Enter mortgage debt relief in excess of California limits on line 21f, Column C.

#### Line 23

#### Educator Expense

Enter any column A amount in column B, line 23.

#### Line 24

#### Certain Business Expenses of Reservists, Performing Artists, and Fee-Basis Government Officials

Enter the amount from line 24, column A to line 24, column B.

#### Line 25

#### Health Savings Account

Enter the amount from line 25, column A, to line 25, column B.

#### Line 26

#### Moving Expenses

No adjustment necessary.

#### Line 27

#### Self-Employment Tax

No adjustment necessary.

#### Line 28

#### Self-Employed, SIMPLE, and Qualified Plans

No adjustment necessary.

#### Line 29

#### Self-Employed Health Insurance Deduction

Enter on line 29, column C, the amount paid for health insurance coverage for your registered domestic partner and their dependents. This is beyond the scope of most VITA/TCE programs.

#### Line 30

#### Penalty on Early Withdrawal of Savings

No adjustment necessary.

#### Line 31

#### Alimony Paid

No adjustment necessary.

#### Line 32

#### IRA Deduction

No adjustment necessary.

#### Line 33

#### Student Loan Interest Deduction

California conforms to federal tax law. Interest paid on student loans may be deducted in excess of 60 month's repayment. The income limitations are different. See the "Student Loan Interest Worksheet," page 52.

#### Line 34

#### Tuition and Fees Deduction

California does not conform. Enter column A amount in column B on this line.



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#### STUDENT LOAN INTEREST DEDUCTION WORKSHEET

1. Enter the total amount from Schedule CA(540), line 33, column A  
.....1. \_\_\_\_\_
2. Enter the total interest you paid in 2008 on qualified student loans, but  
not more than \$2,500 here..... 2. \_\_\_\_\_
3. From Form 1040, add line 33 (student loan interest deduction) to  
line 37 (AGI). Enter the result here.....3. \_\_\_\_\_
4. Enter the total military income included in federal AGI  
(see FTB Pub 1032) ..... 4. \_\_\_\_\_
5. Subtract Line 4 from line 3..... 5. \_\_\_\_\_
6. Enter the amount shown below for your filing status.  
Single/head of household, or qualifying widow(er) - \$55,000  
Married filing jointly/RDP - \$115,000.....6. \_\_\_\_\_
7. Is the amount on line 5 more than the amount on line 6?  
NO. Skip lines 7 and 8, enter -0- on line 9, and go to line 10.  
YES. Subtract line 6 from line 5..... 7. \_\_\_\_\_
8. Divide line 7 by \$15,000 (\$30,000 if married filing jointly). Enter  
the result as a decimal (rounded to at least three places). If the result is  
1.000 or more, enter 1.000..... 8. \_\_\_\_\_
9. Multiply line 2 by line 8.....9. \_\_\_\_\_
10. **Student loan interest deduction.** Subtract line 9 from line 2. 10. \_\_\_\_\_
11. **Student loan interest adjustment.** Enter the result here.  
If Line 1 is less than line 10, enter the difference on Schedule  
CA (540), Column C.....11. \_\_\_\_\_

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#### TAXABLE INCOME (cont.)

##### Line 17

##### **California adjusted gross income**

Combine lines 15 and 16 and enter the result on line 17.

##### Line 18

##### **Standard deduction or itemized deductions**

Your client decides whether to itemize their deductions or to take the state standard deduction. Use the method that gives your client the greater deduction.

If your clients itemize their deductions for state purposes, complete and attach Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions to the Form 540.

For additional information about standard and itemized deductions, refer to pages 21 through 23, *General Information Section*.

See page 123 for instructions on how to fill out the Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions.

##### Line 19

##### **Taxable Income**

Subtract line 18 from line 17. This is your clients' taxable income. If less than zero, enter 0.

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**Line 35**  
**Domestic Production Activities**  
**Deduction**

This is beyond the scope of the VITA/TCE Program.

**Line 36**  
**Add**

Add line 23 through line 35 in column B and column C.

**Line 37**  
**Total**

Subtract line 35 from line 22 in column B and column C.

Transfer the amount from line 34: Column B to Form 540, line 14; and Column C to Form 540, line 16.

**CAUTION:** If Schedule CA (540), line 34, column B is a negative number, do not transfer it to Form 540, line 14. Instead, transfer the amount as a positive number to Form 540, line 16.

**-OR-**

**If Column C is a negative number, do not transfer it to Form 540, line 16. Instead, transfer the amount as a positive number to Form 540, line 14.**



*California does not allow for the clean fuel deduction. If your client claimed this deduction on the federal return, you must enter that amount on line 36 of the Schedule CA.*